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Top Secret 219

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NATIONAL INTELLIGENCE DAILY CABLE

Friday 24 February 1978

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NATIONAL SECURITY INFORMATION

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National Intelligence Daily Cable for Friday, 24 February 1978.

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The NID Cable is for the purpose of informing senior US officials.

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USSR: 60th Anniversary Speech

25X1, [] Soviet Defense Minister Ustinov strongly advocated progress on arms control measures in his speech commemorating the 60th anniversary of the Soviet Army and Navy Wednesday. He singled out the Strategic Arms Limitations Talks and the Mutual and Balanced Force Reduction negotiations as particularly important, and asserted the defensive purpose of the Soviet armed forces. Ustinov added to the current campaign embellishing President Brezhnev's military record by fulsomely praising Brezhnev's wartime and present role. He referred to Stalin's wartime performance, and indicated Moscow's poor relations with Peking by briefly but harshly condemning the Chinese leadership's foreign policies.

25X1 [] Ustinov spoke with confidence about the military capability of Soviet armed forces, but his tone was generally conciliatory. He opened the international section of his speech by pledging to stop the arms race and to "deepen and consolidate" detente and to make its development "irreversible." This formulation has been used in the past by Soviet officials to signal their support for detente, but has been only occasionally used in the last 18 months. He cited numerous Soviet disarmament proposals, and singled out SALT and MBFR as particularly important--thus giving the MBFR negotiations an unusual pride of place.

25X1 [] The Defense Minister's remarks castigated "forces of reaction and aggression" in the capitalist world and stressed that Moscow could match the production of such lethal weapons as cruise missiles and "neutron bombs." His remarks, however, lacked the sharp focus and relative harshness of the lengthy *Pravda* editorial on 11 February that attacked "forces in the United States" for creating obstacles to a SALT agreement. His conciliatory tone may have been intended in part to provide a balance to the foundering European security negotiations in Belgrade and to emphasize a desire to move ahead on other points.

25X1. [] Ustinov seemed somewhat defensive about Moscow's military posture, repeatedly stressing its allegedly defensive nature and denying that the USSR intended to use its military might for expansionism or for advancing international Communism.

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[] Ustinov did, however, clearly refer to the theoretical basis for Soviet military control over Eastern Europe. He called the Soviet armed forces "the embodiment of socialist internationalism," and asserted that their defensive capacity "consolidates the positions of the world socialist system."

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[] Ustinov also went to great lengths to enhance Brezhnev's already exaggerated reputation as a military leader. He detailed Brezhnev's military contributions from his wartime activities at the front to the present time. Ustinov emphasized that Brezhnev "gives daily attention to questions of military building," and stated that "the might of the Soviet armed forces is inseparable from the name of Leonid Ilich Brezhnev."

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[] The Defense Minister also made a rare public reference to Stalin's wartime role in mobilizing Soviet forces to rout the enemy--a statement applauded by the audience. The remarks were within the bounds of the current Soviet treatment of Stalin, which allows him credit for his wartime contribution in spite of his other excesses. In praising early Soviet military heroes, however, Ustinov also included Marshal Tukhachevskiy, who was executed during Stalin's purges and who has since been politically rehabilitated.

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[] The only country specifically criticized was China. Ustinov charged that the Chinese leaders were inciting international hatred, opposing peace initiatives, and acting in concert with world reaction--unusually harsh language for a Politburo member--and emphasized that there is little hope now for constructive changes in Peking's anti-Soviet policies.

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VIETNAM-CAMBODIA: Relations

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[] Vietnam's public criticism of Chinese support for Cambodia in the Vietnamese-Cambodian border conflict probably reflects Hanoi's frustration in its attempts to force Phnom Penh to negotiate. Cross-border shelling and small unit incursions continue, but the border has been relatively quiet since the Vietnamese peace proposal of 5 February. Vietnam will probably intensify its propaganda and diplomatic pressure on Cambodia before resorting to significant new military actions.

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25X1 [] On Monday and Tuesday, Vietnamese media for the first time sharply criticized China--without mentioning it by name--for supporting Cambodia in the conflict. Hanoi radio said Phnom Penh "could not conduct its anti-Vietnam campaign alone," and insinuated that Peking has been supplying Cambodia with the means to continue the border conflict--including long-range artillery and warplanes the Cambodians did not have before 1975. The Soviet press has repeated these charges.

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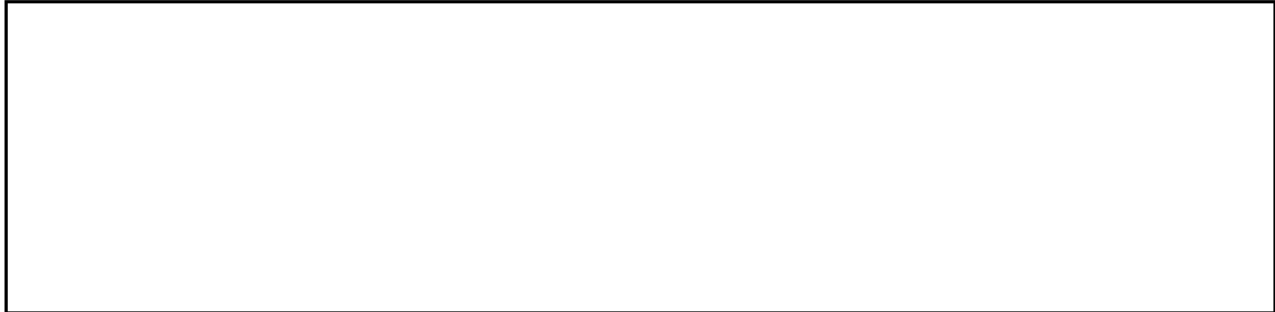
25X1 [] Vietnamese criticism of Peking no doubt reflects Hanoi's frustration at China's unwillingness to use its leverage to bring Phnom Penh to the negotiating table. Although the Chinese favor a negotiated settlement that would prevent any further deterioration in relations with Vietnam, they are clearly not prepared to risk alienating their only ally in the region by employing the ultimate sanction, a cessation of support.

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25X1 [] Vietnam's criticism of China runs counter to its broader effort to establish a balance between Moscow and Peking. Although Hanoi has not repeated its charges against Peking over the past week, it may raise them again on occasion publicly to display its displeasure.

25X1 [] //Despite its threats of force if Phnom Penh continues to reject its peace proposal, Vietnam seems more intent on stepping up political pressure on Cambodia. Hanoi sent a copy of its proposal to the UN, where it was informally circulated, and one Vietnamese official said his country would request a UN mission to inspect the border. Vietnam has not yet undertaken any further initiatives at the UN.//

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WEST GERMANY: The Neutron Weapon

[redacted] //The West German Government announced yesterday that its decision on the deployment of neutron weapons in Western Europe would depend on the outcome of East-West disarmament talks. The statement appeared to adopt a position similar to that outlined by the Free Democratic Party, the junior partner in the two-party coalition with the Social Democrats.//

[redacted] //The Free Democratic resolution stated that the decision to produce the weapon is up to the US and if Washington decides to go ahead the neutron weapon should be introduced into arms reduction negotiations that would devote as much as two years toward reaching a force reduction agreement. Presumably, Bonn would engage in NATO discussions on deployment of the weapon in Western Europe only if those negotiations failed.//

[redacted] //The government's action may have been inspired by a recent resolution of the opposition Christian Democratic Union/Christian Social Union that urged the government to support a US decision to produce a neutron weapon for eventual deployment in Europe as part of the NATO defense force. By taking the lead on this matter, however, the opposition may also hope to stimulate a dispute within Chancellor Schmidt's Social Democratic Party over this emotionally charged issue.//

[redacted] //The Social Democrats avoided taking a position on the neutron weapon at their conference in Hamburg last year, resolving only that they hoped East-West negotiations would make such a weapon unnecessary. Some of the party's young liberal spokesmen, however, rejected the neutron weapon entirely.

Many social democratic left-wingers oppose the weapon, but the position of some may be softening. Egon Bahr, who appears to be trying to act as the left's unofficial spokesman on the matter, may be seeking to guide them away from total rejection of the neutron weapon concept. Bahr said earlier this week that the coalition parties agree on the principles of the neutron weapon issue and on their rejection of the "unrestricted yes" of the opposition. [REDACTED]

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CHILE: Foreign Investment

[REDACTED] *The resumption of loans and direct investment in Chile by foreign bankers and businessmen is likely to stimulate other potential investors. Such outlays have been low since the military intervention that toppled the Marxist government in 1973. The increase in capital inflow--resulting from improvement in Chile's credit standing abroad--has enabled Santiago to relax its austere economic policies at home.*

[REDACTED] Major investments have resulted from growing foreign confidence in the government's ability to manage the economy. Chilean officials evidently sharply distinguish between the attitudes of US businessmen and those of the US Government, which they perceive as hostile toward Chile. Interest in enticing a continued flow of external capital will probably remain a key element in the government's economic recovery program.

[REDACTED] We expect private capital flows to amount to \$1 billion to \$1.2 billion in 1978--more than double the funds made available in 1976. International bankers began increasing loans to Chile in 1977, and could syndicate as much as \$1 billion in new loans for the Chilean Central Bank and state corporations in 1978. Loans to Chile, at a rate of 2 percent over the London Interbank Rate, are currently very profitable in the world money market, where developing countries are refinancing past debts at less than 1 percent over the London rate. Foreign corporations are also increasing direct investment outlays and are likely to invest at least \$200 million this year.

[REDACTED] The Chilean Central Bank and state corporations raised nearly \$750 million in new loans and credits last year, compared with \$450 million in 1976. Medium-term loans obtained in world

money markets accounted for 55 percent of the total. The overseas branches of US banks arranged the bulk of the Euromarket syndications, while major New York commercial banks controlled direct foreign bank lending. Supplier credits comprised the remainder, mainly from non-US banks to finance capital goods imports.

25X1 [] Known direct investment by foreign corporations totaled \$150 million in 1977, up from \$80 million in 1976. Approximately 80 percent of these investments were by US corporations, the largest being the acquisition by Exxon Minerals International of the Disputada de las Condes copper mines for \$110 million in December.

25X1 [] These increased outlays are in large part a result of Chile's prompt payment of foreign debts and revitalization of the economy under the junta's stabilization and reform program. Last year, for example, Chile's real gross national product grew by an estimated 8 percent, compared with nearly a 13-percent decline during 1975.

25X1 [] Chile's elimination of direct investment barriers is also paying dividends. In October 1976, Chile withdrew from the Andean Pact, thus freeing itself from restrictive foreign investment regulations, and in March 1977 the government liberalized the Foreign Investment Statute.

25X1 [] Increased private capital flows enabled the Chilean regime to avoid renewed payments problems last year. Despite a 60-percent decline in official loans--resulting from growing international disapproval of the government's human rights practices--total capital inflow reached \$1 billion, compared with \$900 million in 1976. The greater flow of credit from private sources enabled Chile to relax its austere incomes policy and greatly expand imports while also covering part of the \$1 billion in debt amortization payments due in 1977. []

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NEPAL: Koirala Released

25X1 [] *The Nepalese Government announced yesterday that King Birendra has approved the release from prison of ailing former Prime Minister and political activist B. P. Koirala, who is*

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on trial on seven counts of treason and sedition. Although Koirala is free to seek medical treatment abroad, he has decided to remain in the country to complete his trial.

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[] Koirala is a leader of the proscribed Nepali Congress Party, which governed Nepal in 1959 and 1960 before former King Mahendra abandoned his brief experiment with democracy. Koirala voluntarily and unexpectedly returned to Nepal in late 1976. He had spent eight years of self-imposed exile in India, from where he and other party members issued occasional calls for the overthrow of the monarchy and reinstatement of the democratic process. The Nepalese Government alleges that the party also conducted guerrilla forays into Nepal's border regions and staged terrorist attacks against government officials, including the King.

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[] Koirala was arrested immediately upon his return to Nepal and charged with treason and sedition, but was released last summer to undergo an operation in the US. He was rearrested on his return to Kathmandu last November.

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[] By approving Koirala's release for the duration of his trial, King Birendra perhaps hopes to fend off further pressure from India and the US on the human rights implications of Koirala's case. Although the charges are being heard by a one-man tribunal in camera, Koirala's trial seems to have been fair so far--he has already been acquitted on four of the seven charges. His lawyers apparently believe that the evidence against him for the last charge is more substantial, however, and could result in a conviction next week.

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[] Should Koirala be convicted, King Birendra will probably try to arrive at an understanding with the aging politician that would permit a full pardon. Birendra usually does not deal harshly with political dissent as long as it does not threaten the existence of the monarchy or inhibit his plans to modernize his tiny, backward kingdom. []

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